



0000067141

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

Arizona Corporation Commission

DOCKETED

FEB 20 2007

DOCKETED BY

nr

IN THE MATTER OF THE APPLICATION
OF UNS GAS INC. FOR PRE-APPROVAL
OF COST RECOVERY FOR THE
ACQUISITION OF PIPELINE CAPACITY
ON THE TRANSWESTERN PHOENIX
EXPANSION PROJECT.

DOCKET NO. G-04204A-06-0627

DECISION NO. 69333ORDER

Open Meeting
February 13 and 14, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Gas Inc. ("UNS") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On October 23, 2006, UNS filed for Commission pre-approval of cost recovery for participation in the Transwestern Pipeline's ("Transwestern") Phoenix Expansion Project ("Project").

3. The Project is a new project which Transwestern would undertake, comprising a combination of some existing pipeline capacity in some segments, and some new construction. The Project would provide additional access to San Juan basin natural gas to shippers, including UNS. The Project would run through Yavapai County, where UNS would take service via three ...

1 taps in the Prescott area. The Project would then skirt the western side of the Phoenix metro area
2 before entering Pinal County and ending near Coolidge, Arizona.

3 4. On January 30, 2007, Staff filed its Staff Report in this matter, containing Staff's
4 evaluation and recommendations regarding the Southwest filing.

5 5. UNS currently receives interstate pipeline service from both El Paso Natural Gas
6 Company ("El Paso") and Transwestern. UNS receives service from El Paso in Santa Cruz
7 County and in many locations in northern Arizona, including the Prescott area. UNS currently
8 receives service from Transwestern in the Flagstaff and Kingman areas.

9 6. UNS' service on El Paso has changed significantly in recent years, including the
10 conversion from full requirements to contract demand rights in 2003 and the introduction of new
11 service, penalty, and other operational provisions in the current rate case proceeding before the
12 Federal Energy Regulatory Commission ("FERC"). On December 6, 2006, a proposed settlement
13 agreement was filed with FERC in the El Paso rate case.

14 7. Under UNS' precedent agreement with Transwestern, UNS would take monthly
15 sculpted service on the Project at the Prescott South, Airport Station, and Chino Valley delivery
16 points. The precedent agreement reflects a 15-year term, during which UNS would pay a fixed
17 \$0.415 per decatherm ("dth") reservation charge for receipt of natural gas in the San Juan basin for
18 delivery in the Prescott area.

19 8. Introduction of some level of pipeline competition into central Arizona via the
20 Project would diversify Arizona's natural gas infrastructure, would provide some shippers and
21 delivery points with a competitive option, would provide additional access to historically cheaper
22 San Juan supply basin natural gas, and could lead to the creation of a market center for natural gas
23 pricing in Arizona. Additionally, UNS has indicated that introduction of the Project to the Prescott
24 area would enhance service reliability and would reduce the cost of future capital costs for
25 infrastructure in the area.

26 9. UNS' application contains a cost comparison that indicates that UNS expects that it
27 would save on both pipeline service costs and commodity costs by taking service from
28 Transwestern on the Project rather than acquiring additional Permian supply basin sourced pipeline

1 capacity from El Paso. Proposed rates in the El Paso rate case settlement agreement before FERC
2 are lower than those contained in UNS' initial cost comparison, but even with the lower proposed
3 El Paso settlement rates, service on the Project for UNS is projected to be less costly.

4 10. The Staff Report discusses a variety of issues related to UNS' application in greater
5 detail.

6 11. UNS states in its application that its filing is pursuant to the Commission's
7 December 18, 2003 Policy Statement Regarding New Natural Gas Pipeline and Storage Costs,
8 which encourages development of needed natural gas infrastructure in Arizona.

9 12. The Staff Report recommends adoption of the following conditions:

- 10 • The Commission retains full authority to review UNS' gas procurement activities,
11 including its management of all pipeline capacity and related activities, recognizing that the
12 Commission is pre-approving the underlying acquisition of the Transwestern capacity
13 during the initial term of the agreement with Transwestern. The pre-approval being
14 granted in this proceeding would expire upon completion of the initial term.
- 15 • The impact, if any, on UNS' risk profile resulting from pre-approval of costs related to
16 Transwestern pipeline capacity would be considered within the context of future UNS rate
17 proceedings.
- 18 • UNS shall file a status report on the Transwestern project and UNS' participation in the
19 project with the Commission every six months until either UNS begins taking service from
20 Transwestern or UNS' participation in the project is terminated.
- 21 • UNS shall file a notice with the Commission within ten days of when the exact volumetric
22 and fuel rates, applicable for UNS when UNS begins service with Transwestern, are set for
23 the Transwestern pipeline.
- 24 • UNS shall file a notice with the Commission within ten days of each of the following
25 events regarding the Transwestern project: a) FERC granting approval of the pipeline, b)
26 Transwestern beginning construction of the pipeline, c) Transwestern completing
27 construction of the pipeline, and d) UNS beginning to take service from the Transwestern
28 pipeline.

- 1 • UNS shall file a notice with the Commission if at any time either UNS or Transwestern
2 exercises termination rights pursuant to the precedent agreement or if any other events
3 significantly impact UNS' participation in the Transwestern project, within ten days of any
4 such action.
- 5 • Pre-approval of the specific costs related to UNS' acquisition of capacity on the
6 Transwestern pipeline is granted based upon the specific and unique conditions considered
7 in this application and will in no way commit or predispose the Commission regarding any
8 future considerations of pre-approval of costs. Rather, the standing presumption would be
9 that the Commission would not grant pre-approval in future proceedings, absent a careful
10 consideration of unique, serious, and important circumstances which would require such
11 action.
- 12 • None of the pre-approved costs will be passed on to UNS' ratepayers until all of the
13 following occur:
 - 14 A. The Transwestern pipeline is built and operational.
 - 15 B. UNS is receiving service on the Transwestern project consistent with the precedent
16 agreement and this order.

17 13. Staff believes that UNS' participation in the Project is reasonable given the
18 information available at this time.

19 14. Staff has recommended that the Commission pre-approve cost recovery of UNS'
20 specific costs related to the Project at issue in this proceeding, including the reservation charges,
21 volumetric charges, fuel charges, and applicable surcharges, subject to certain conditions.

22 CONCLUSIONS OF LAW

23 1. UNS is an Arizona public service corporation with the meaning of Article XV,
24 Section 2, of the Arizona Constitution.

25 2. The Commission has jurisdiction over UNS and over the subject matter of this
26 application.

27 3. The Commission, having reviewed the application and Staff's Memorandum and
28 attached Staff Report dated January 30, 2007, concludes that it is in the public interest to approve

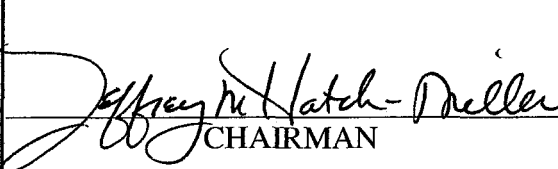
the request for pre-approval of cost recovery of reservation charges, volumetric charges, fuel charges, and applicable surcharges, subject to certain conditions.

ORDER

IT IS THEREFORE ORDERED that UNS' cost recovery of reservation charges, volumetric charges, fuel charges, and applicable surcharges related to the Phoenix Expansion Project pipeline capacity at issue in this proceeding be and hereby is pre-approved, subject to conditions identified in Finding of Fact Number 12.

IT IS FURTHER ORDERED that this Order shall be effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN

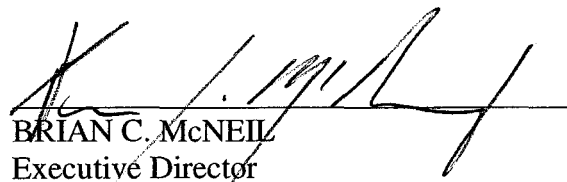

COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 20th day of February, 2007.


BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:RGG:tdp/JMA

1 SERVICE LIST FOR: UNS Gas, Inc.
2 DOCKET NO. G-04204A-06-0627

3 Mr. Michael W. Patten
4 Roshka Dewulf & Patten PLC
5 One Arizona Center
6 400 East Van Buren Street, Suite 800
7 Phoenix, Arizona 85004
8 Attorney for UNS Gas, Inc.

9 Mr. Ernest G. Johnson
10 Director, Utilities Division
11 Arizona Corporation Commission
12 1200 West Washington
13 Phoenix, Arizona 85007

14 Mr. Christopher C. Kempley
15 Chief Counsel
16 Arizona Corporation Commission
17 1200 West Washington
18 Phoenix, Arizona 85007
19
20
21
22
23
24
25
26
27
28